



**CARANA Corporation**

**THE COMPETE PROJECT**

**Competitive Private Enterprise and Trade Expansion**

**Position Paper**

**STRENGTHENING THE EXPORT COMPETITIVENESS OF  
UGANDA'S COTTON SECTOR**

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## STRENGTHENING THE EXPORT COMPETITIVENESS OF UGANDA'S COTTON SECTOR

### The Challenge

*Cotton traditionally has been one of Uganda's important export commodities, currently accounting for 3.6% of the country's foreign exchange receipts. While well below the contribution made by coffee, cotton ranks fourth in importance among agricultural and fish products. In 1999/00, cotton exports were 14.5 thousand metric tons, compared to 86.3 thousand metric tons when cotton peaked in 1969/70. At that time cotton contributed 40% of total foreign exchange earnings. Moreover, cotton is directly critical to the incomes of 10% of the country's population (about 2.5 million persons, presently) in the rural areas of the east, north and west. Also, the sector contributes significantly to urban employment in some regions.*

*However, during the period from 1974/75 to 1993/94, external and internal factors have combined to dramatically reduce cotton's contribution to economic growth, foreign exchange earnings, and rural incomes. In fact, foreign exchange earnings directly from cotton were reduced to about 1.7% in 1995. With this decline came the decline of the ginning, textile, and oilseed processing sectors. Most importantly, Uganda lost its ties to the international trading community due to its reputation as an undependable supplier.*

*With the good climate and soils that Uganda offers for growing cotton, the commodity has the potential of being a much greater contributor to the economy. This contribution is beginning to be realized through the efforts of the Cotton Development Organization (CDO) and other industry organizations, resulting in foreign exchange earnings rising from 1.7% in 1995 to 3.6% in 1999/00. At full rejuvenation the sector should provide incomes to nearly 12% to 15% of the country's population in rural areas. Furthermore, when the value-added portion of this industry (textile mills, edible oil processors, soap producers, and the livestock feed industry) is rejuvenated and expanded, it will account for the income of another 2 to 3% of the country's population in urban areas.*

*The challenge is to bring cotton back to its former position and Uganda needs to continue to address the crisis of the sector. Both the private and public sectors involved in cotton need to be fully engaged in a "national export initiative" to revive and rehabilitate cotton's, and its value added products, contribution to economic growth and foreign exchange.*

### The Problem

*Internally, due to internal political disruptions, cotton production entered a period of spiraling decline from a peak of 466,000 bales in 1969/70 to a low of 12,000 bales in 1987/88. It began to revive after this, but did not get a full boost until 1994 when under the Economic Recovery Program, the government liberalized domestic and export marketing, processing, and pricing and launched the Cotton Sub-sector Development Program (CSDP). Under this program five key initiatives were undertaken: support for research via NARO; establishment of an extension component via the Ministry of Agriculture; initiation of a credit*

support program via Bank of Uganda; development of an Agricultural Policy Secretariat; and the establishment of the Cotton Development Organization (CDO). While all these initiatives were not directed at cotton alone, the CDO was and took on the role of regulating, and promoting the cotton industry. This has helped as gins have been transferred to creditworthy operators, and the industry has been actively working to improve the sector's production and profitability.

The sector still faces serious problems, some of which include:

- Low cotton productivity at the farm level.
  - Uncertainty with respect to seed and pesticide use
  - No utilization of fertilizers and notable soil depletion
  - Poor cultural practices by many farmers
  - Improper picking practices at harvest
  - Poor coverage by the agricultural extension agents
- Changes in the research approach due to shortages in funds and talent that will impact the attention cotton research receives.
- Lack of an adequate finance program to support farmers, ginneries and value-adding firms.
- Recent low prices internationally for cotton and a continued outlook for expanded cotton production in 2002 that will continue to keep prices depressed.
- Lack of an organized information system that provides stakeholders with the information they need to make correct marketing decisions.
- Low utilization of gins making very marginal operations.
- Maintenance of a quality control program that ensures quality.
- A need for upgraded equipment at gins, which will help preserve the integrity of high quality Ugandan cotton.
- Lack of adequate storage facilities at gins.
- High cost slow transportation from gin to export point.
- Lack of a system that ensures that good Ugandan cotton is preserved for use by the indigenous value added textile firms and other users.

While many positive actions have been taken the return to previous levels has been slower than anticipated. This is due, in part, to controllable actions, but also because of uncontrollable actions such as price declines, and poor weather. Nevertheless, much work remains to accelerate cottons return to its previous position. And, if the productivity of cotton is not increased the margins to farmers and ginneries will be very limited. Thus, many farmers and ginneries will exit the industry while the international price is low. One could argue that this is what should happen, but at this stage in Uganda's effort to revitalize the industry this could be a mistake as many farmers and ginneries are just starting to get back on their feet. Thus, efforts must be kept in place until the industry has had the chance to re-establish itself, with the threat of cancellation of the CSDP program at the end of 2001 a major force for change and reestablishment of the sector will be lost.

### **The Opportunity**

*Uganda has the capacity to restore the cotton sector through effective support for farmers, the management of processes that guide farmer, and building management capabilities at ginneries and value-adding levels of the industry. As indicated above, Uganda has the*

agricultural and climatic conditions to produce one of the best quality cottons in the world. To realize the opportunity it will require expanded productivity at the farm level. This will require improvements in agronomic practices, use of high quality seed, proper application and use of organic and inorganic fertilizers, improved and properly applied pest and disease control measures, use of greater appropriate mechanization, and establishment of demonstration farms that show farmers the correct practices. Also, farmers must know what their economic gains will be from using these correct practices.

To maintain its market position, *it is essential to build on the positive goodwill effort in place between ginners and farmers that has been a focus of the CDO and UGCEA.* If the commitment to improved cotton productivity can be effectively implemented it will go a long way toward helping the industry reach prior levels of production. For the 2000/2001-crop year, CDO together with the ginners provided seed and pesticides to the farmers. Enough of these inputs were provided to produce 300,000 bales, but in actual fact 90 to 100,000 bales were produced. CDO and the ginners are ready to review the reasons for the shortfall and make corrections in the program to better ensure expected results for the 2001/2002-crop year, *and effective demonstration farms need to be a centerpiece of the effort.* The good news is that the industry has a sound coordinator in CDO, a group of committed gin operators, and farmers that are ready to respond with proper guidance. This public and private sector support is vital to the future realization of this sector opportunity.

In addition to the strong supportive role of CDO, Ginners, and farmers, other government agencies need to remain committed to the cotton sector and its resurgence. The government should not be dissuaded by the ups and downs that inevitably exist when dealing with agricultural commodity markets. A strong focused program of research to support the sector must be kept in place, and this program must work hand-in-hand with CDO, Ginners, and farmers to be sure that new seed varieties, and research developments are brought to the effective implementation by farmers. In fact, these roles need to expand it into new areas, particularly as relates to the value added and information support ends of the business.

*Support and expansion of the value adding sectors of the cotton business (textiles, vegetable oils, soap, and specialty medical type products, etc.) need to receive more focus.* The value-added sector offers the best way to retain for Uganda the value generated by the country's cotton sector. The time for this is now because the US government has provided several African countries the opportunity to export, duty free, their products to the US market under a program called African Growth and Opportunities Act (AGOA). The link to this part of the sector is not as strong as it is at the farmer, ginner level and the industry must bring these stakeholders in as integral members so that action plans for the future incorporate the contribution that value adding sectors can make.

## **The Strategy**

The approach that Uganda must follow should be based on the recognized principals of international competitiveness. A sound competitiveness strategy must focus on four key elements: demand, factors of production (supply), strategy, and cluster of interlocking activities that constitute the cotton sector. Above all, the approach to strengthening *the long-term competitiveness of the cotton sector must begin with understanding the market and serving it with what the customer wants.* In the case of cotton the characteristics of cotton

with respect to staple length, micronaire, and color will determine the price that the customer will pay.

Responding to demand, the competitive strategy must be to *communicate what constitutes market value to each link in the cotton production system*. This strategy must be based on achieving cooperation and understanding at the various stages in the cotton system. This includes farmers, assemblers, ginnerers, exporters, and value adding users. In addition to the direct line stakeholders, related institutional stakeholders (farmer associations, government agencies (CDO)) need to be fully informed about what constitutes market value. Fortunately, the stakeholders in the cotton sector have a good understanding of cottons market value, and Ugandan cotton is of good value, and often commands a premium.

With respect to factors of production, they must be strengthened, particularly at the farm level. *The most serious problem facing the cotton sector is the low level of farm productivity. Upgrading this must be a major strategic thrust if competitiveness of the sector is to be enhanced.* Strengthening production will include training farmers in good cultural practice, the use of high quality seed, the use and proper application of fertilizer and pesticides, and in the proper control of weeds. Ugandan cotton farmers will need to have proper use of these inputs demonstrated to them in order to see how they can impact on yield and on the amount of money the farmer takes home for his efforts. Also, to ensure the use of these inputs it must be possible for farmers to access the required inputs; therefore, effective delivery systems need to be in place as well as the credit facility necessary to make the purchases.

When the factors of production used by farmers are properly used factors of production used by ginnerers will be maximized. Presently ginnerers do not use their factors of production to a maximum because there is not a sufficient cotton supply. Other factors of production used by ginnerers and value adding firms (textile mills) also need strengthening. It will require strengthening of physical assets (gin, and textile equipment), human resources (training, information and research to growers and workers) and capital (availability of credit to the various stakeholders in the production and processing system).

*The strategy will require that the government representative, CDO, continues its important role in mobilizing and coordinating the support of stakeholders at all levels around a national cotton (raw or value added) export program, even though it will be executed by the private sector.* The strategy will involve maintaining or improving quality, and placing an emphasis on improving productivity at all levels of the industry, but most particularly at the farm level. In addition to the full commitment of the private direct line stakeholders the stakeholder institutions, both public and private, must be oriented (and funded) to execute the vital coordinative and mobilization role. In addition to ensuring quality is maintained or improved, and productivity is increased at the farm level *other assistance will be required at the transport, storage, and marketing levels.*

Therefore, a *strategy*, reinforcing *demand*, and focuses on strengthening the *factors of production at farm, ginner, and value added level* can help put Uganda's cotton sector in a far stronger competitive position to serve the international market and the stakeholders of the industry.

## Action Steps

*Uganda's competitive challenge in the cotton sector is to increase the productivity of cotton and the economic returns to farmers. A failure to meet this objective can only have detrimental effects to the industry. If farmers cannot realize adequate profits (cash returns) for their efforts they will discontinue producing cotton. Also, if the supply of cotton is not increased to more effectively utilize gin capacity gin margins will continue to be squeezed and ginneries will exit the industry. Another key area of focus must be the value-adding sector of the industry. Uganda's competitiveness in the textile and other value adding sub-sectors of the industry must be fully realized to keep as much of the value generated by the industry at home.* To accomplish this competitiveness effort will involve several steps. Some key steps are set out below, but because this is a work in progress other steps will undoubtedly be identified

- *Increase the productivity of cotton and returns to farmers*

To increase the productivity of cotton a program of demonstration is urgently needed, where farmers can come to demonstration plots and see how proper practices of cultivation, planting, seed use, fertilizer use, pesticide use, herbicide use, and other good farming practices could help them increase productivity. Along with this initiative it is necessary to show farmers how these proper practices can increase their revenue from growing cotton. To accomplish this step several sub-steps are required and some include:

- Establish the correct number, and identify the sites for demonstration plots;
- Identify district and site coordinators to implement and monitor the plots;
- Train the site coordinators so that they can train farmers;
- Establish the proper design layout for each plot;
- Organize the proper preparation and planting of each plot;
- Conduct observation-training visits by farmers.

Through the proper organization of these demonstration plots the resources that CDO and the ginneries are ready to provide will be used most effectively. But, for success it is absolutely critical that the proper design and implementation plan be followed.

- *Ensure that proper research support is provided to the cotton production sector*

Presently the cotton sector enjoys research support from a dedicated team of researchers. This has helped to improve the way seed is multiplied, insects managed, and disease controlled. Also, work has been done to determine the effectiveness of various fertilization regimes. However, this dedicated team is being threatened by a change in the way the national research efforts will be managed. The national program is moving to a "Managed Research Program" because of budget constraints as well as talent constraints. As this transition occurs the impact on the cotton research program could be negative.

- *Ensure that adequate financing is available for farmers, ginneries, and value adding firms*

Clearly, if we are to teach farmers improved production practices, practices that may cost them more money than present practices, they will need to have credit support to implement the new practices. Some of these credit resources should come via supplier credits, but there may be a need for other sources and efforts should be made to identify how they can be put in place. Also, ginneries will continue to need financial assistance via

present methods, but for longer-term credit needs other programs will need to be developed.

- *Improve gin utilization*

Presently many gins are underutilized. To increase utilization will depend on the success of the cotton productivity program. It is important to help increase the utilization of gins or dramatically improve methods for assembling cotton from the fields. By having gins located near farmers it provides a point of contact that helps support farmers, but if these gins do not increase utilization many may go out of business. If gins exit the business then the remaining gins will need to develop stronger programs for interacting with farmers in a much broader area.

- *Ensure the maintenance of a strong quality control program for cotton*

Presently the CDO maintains a quality control program that works effectively, and this program should be maintained and built on to ensure to the customers of the world that Ugandan cotton is of highest quality and meets certain established standards.

- *Develop and continuously communicate new information (technical, market, and other industry news) to farmers, ginners, and value adding firms.*

Reaching farmers, farmer associations, ginners, value adding firms, and other participants in the cotton commodity system requires the use of appropriate techniques to bring the information stakeholders need to them. The techniques used must be adapted to the unique working conditions of the participants.

- *Develop means for integrating the value adding sector into the decision making processes of the industry*

Presently the CDO is working most closely with ginners, but it is necessary to include the value adding portion of the industry because they can help to enhance the value of Uganda's cotton for Ugandans and this is important. With the advent of AGOA and the return of spinners and textile mills to operation these groups need to be included in the decision making process for the sector. For example, at present the value adding firms obtain the cotton they need from local suppliers from January to June, but after June the ginners have exported most of the cotton so the value-adding firms must import lower quality cotton from Tanzania or other neighboring countries. Efforts should be made to keep the good Ugandan cotton for use by the local value adding industry.

- *Ensure strong coordinative support for the industry with government*

Since the advent of CDO the industry has had strong support and help in dealing with concerns that bridge industry and government. It is important to keep this kind of support and coordinative activity in place, as it is vital that the industry have a direct ear to government.

## **The Participants**

*For an effective “national export initiative” for the cotton and cotton products sector, all key participants must be brought into a coordinated effort. While the private sector must ultimately take the lead, the role of government, and non-government institutions, and donors will be critical to the success of the strategy adopted for the sector.*

- *Private sector*

In the cotton sector CDO and UGCEA have made a good start at bringing farmers and ginners together. This effort needs to be continued and built on, and farmer associations may need to be established, as well as much better linkages to the value-adding sector.

- *Public sector*

CDO has held a responsible role for coordinating the interface between government and the industry. This is essential as government institutions can play an important role in assisting the industry with certain regulatory, policy, and enforcement issues. Also, as the principal provider of infrastructure (roads, rail, research, education, and the like) for the sector government’s role is critical.

- *Non-governmental organizations*

Technical assistance and training services provided by the NGO community can often times be important in reaching the target population of farmers, and rural institutions supporting the farm community.

- *Donor Organizations*

Uganda’s need for assistance from the donor community in strengthening the cotton sector is evident. Investment is needed in cotton gin upgrades, textile mill upgrades, human resource development, access to capital, and physical infrastructure.

## **Responsibilities for developing and strengthening the cotton sector**

- The Special Task Force for Export Competitiveness
  - Advises the President and Cabinet on actions to be taken to strengthen competitiveness of the cotton sector
- Cotton Sector Working Group (yet to be established)
  - Develops strategy for export competitiveness and coordinates activities
- USAID’s COMPETE project
  - Technical advisors to the Working Group and the Special Task Force
- Cotton Development Organization
  - Created to promote and regulate the production and marketing of cotton in Uganda and as an autonomous agency, to represent the cotton industry in all aspects.
- Private sector organizations
  - Responsible for working with components in the production chain
- Non-governmental organizations

Responsible for delivering technical advice to producers and community based organizations

### **Short and Longer-Term Work Plan**

To strengthen cotton's competitive position in international markets, a sequence of steps must be followed. Several actions have been identified as needed in a first year strategy. Because the growing season for cotton kicks off in May/June it will not be possible to realize all the actions that have to be organized before the planting season because industry stakeholders are in the midst of taking actions that will not be totally changed. Nevertheless, some elements that need to be pursued and require sustained effort over several years are indicated.

*Initiation/Announcement of the National Export Competitiveness Strategy at a National Conference on Cotton to be held in 2001.*

Announcement by the President or Cabinet of a "National Export Initiative" that will involve a multi-year coordinated effort throughout the country, involving public and private sectors.

*Year 1 Action Plan: Short-term measures to enhance production*

As indicated above the most urgent action is to help the farmer become more productive, and expand the utilization of the ginning sector.

- Identify and establish demonstration plots throughout the country:
  - Identify target farmers with whom to work, and their plots;
  - Identify district and site coordinators to implement and monitor the plots;
  - Establish the proper design layout for each plot;
  - Organize the supply of inputs for the demonstration plots;
  - Organize the proper preparation and planting package for each plot;Develop the ongoing program for the remainder of the first year together with the Cotton Sector Working Group.
- Show and explain demonstration plots to farmers:
  - Train the site coordinators so that they can train farmers;
  - Invite farmers to see the plots and explain what was done;
  - Field the farmer questions and develop effective means for responding;
- Show and explain Results of demonstration plots to farmers:
  - Prepare means for showing farmers results of demonstration plots;
  - Invite farmers to see results;
  - Develop means for showing farmers the impact on returns of results;

*Years 2-5 Action Plan: Longer term measures to improve and strengthen the cotton sectors competitiveness.*

Over the longer-term, Uganda's cotton sector must continue to strengthen the production sector, improve gin efficiency, improve export efficiency, and determine how best to expand the adding of value to the cotton at home. Through these efforts the sector will work to

achieve and maintain a strong competitive position on domestic and world markets. Public and private efforts will need to be focused onto several areas. Some of the areas include:

- Building a coalition of private and public groups to lead the programs of change. At the pinnacle of this group will be the CDO.
- Continuous work to improve the productivity of cotton and returns to farmers
- Continue to work to ensure that proper research support is provided to the cotton production sector
- Promote the expansion of large scale cotton production estates that also support out growers
- Continually work to arrange adequate financing for farmers, ginneries, and value adding firms
- Improve gin utilization
- Ensure the maintenance of a strong quality control program for cotton
- Develop and continuously communicate new information (technical, market, and other industry news) to farmers, ginneries, and value adding firms.
- Develop means for integrating the value adding sector into the decision making processes of the industry
- Promote the expansion of the value adding sector and exports of value added products
- Ensure strong coordinative support for the industry with government

### **Projected Results**

- More stable international market for the premium cotton produced by Uganda
- Re-establish cotton as a reliable source of foreign exchange earnings
- Maintain and build the price premium that Ugandan cotton enjoys
- Build the commitment of farmers to the production of cotton as a cash crop
- Promote production of cotton to its prior peak
- Improve the information flows to the stakeholders in the cotton sector
- Promote the spinning, textile and other value adding sectors
- Continue to build a cohesive, mutually supportive cotton industry
- More farmer-owned and farmer participant management of cotton ginning
- Improved incomes and quality of life in cotton producing areas

### **Disclaimer**

**This document was prepared in the absence of having approval of the Cotton Sector Working Group, and as such some of the action programs indicated may be modified to meet industry stakeholder needs.**

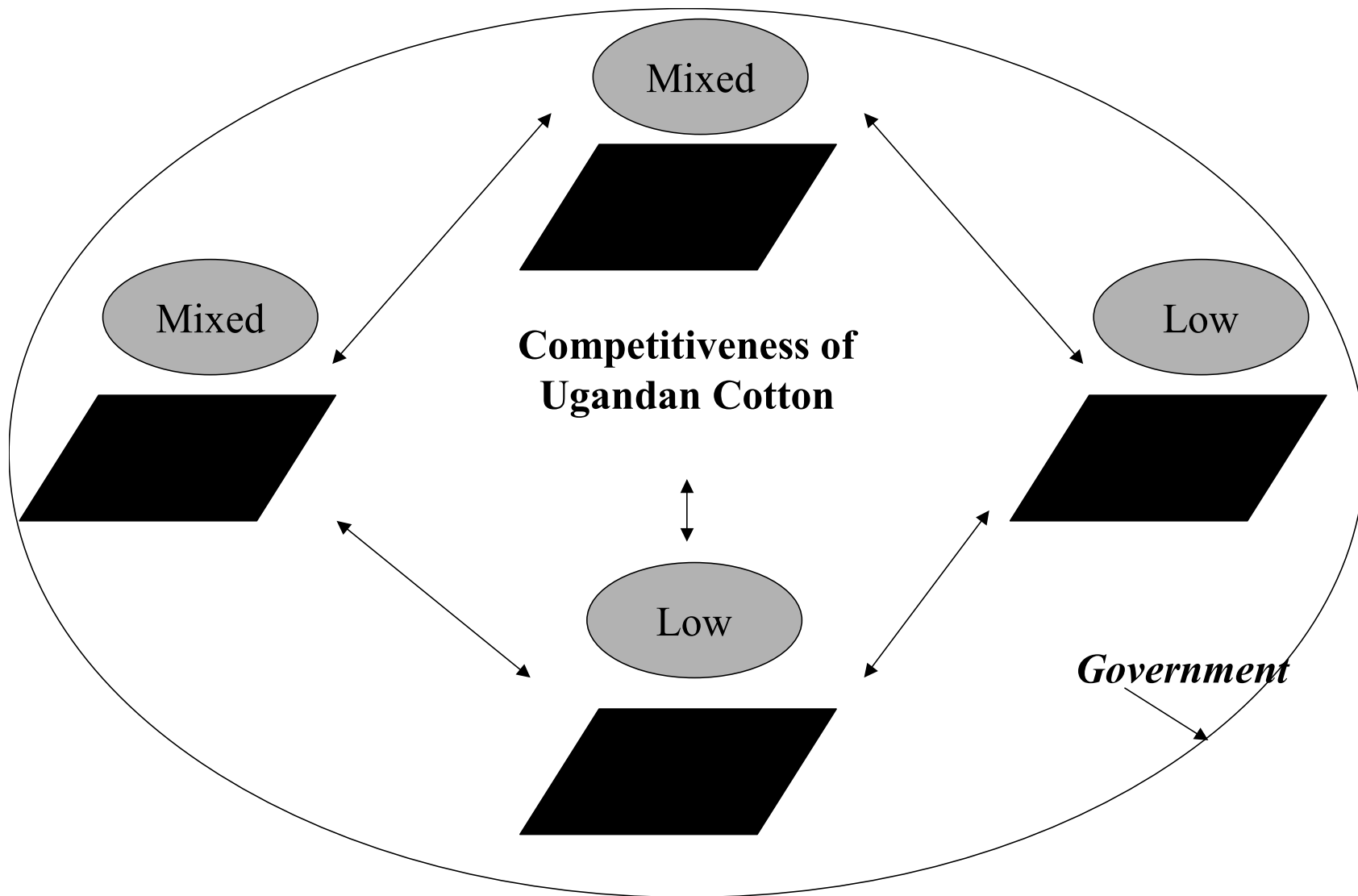
*COMPETE Project*

**ANNEX I**

**The Competitiveness of Uganda's  
Cotton Exports**

A Competitive Diamond &  
SWOT Analysis of  
Cotton

## Uganda's Cotton Exports: A Competitive Diamond



### **Competitiveness Diamond for Ugandan Cotton**

#### **1. Strategy, Structure and Rivalry -- Mixed**

- + Adequate Ginning Capacity
- + An Established Name for Ugandan Cotton
- + Good Quality Long-Stapled Cotton
- + - Some Backward Integration
- + Well Trained Farmers/Workers
- +- Low Management Skills
- - Little Product Innovation
- - No Intra-Industry Dialogue
- - No Established Strategy
- - Not Accessing Niche Markets
- - Little Forward Integration
- - Industry Looks To Government For Action And Support

#### **2. Demand & Market -- Low**

- + High Grade Cotton
- + Steady Growth in World Market Demand
- + Wide Variety of Customers & Destinations
- - Strong Competition From China and USA
- - Small Local Market
- - Little Knowledge of End User
- - No Diversified Products
- - Little Market Research
- - Limited Exposure to the World Market

#### **3. Factors of Production -- Mixed**

- + Potential For An Increase in Production
- + Potential For An Expansion of Land Area
- + Good Climate
- + Low Labor Costs
- + Increased Availability of Good Quality Seed
- +- Limited Access to Quality Workers
- - Low Yields
- - Poor Physical Infrastructure
- - Low Levels of R&D
- - Small Plots of Cotton
- - Poor Soil Quality

#### **4. Cluster -- Low**

- + Strong Government Role in Forming Current Cluster
- +- Associations Emerging
- + Highly Trained Research Scientists
- +- Insufficient Cluster Linkages
- - Weak Financial Services Support
- - Inadequate Training
- - Industry Focuses Heavily on Government Support
- - Weak Related Support Activities
- - Poor Production and Marketing Linkages
- - Low Funding for Research

## SWOT ANALYSIS OF THE COTTON SECTOR IN UGANDA

### RESEARCH:

#### Strengths

- Development of black arm resistant cottons seed variety (*Gossypium hirsutum L*)
- Research Institute established in 1930s, was recently re-established and equipped.
- Highly trained research scientists working on cotton.
- Adequate experimental land available at SAARI (680 Ha).
- Ability to develop appropriate technological packages.

#### Weakness:

- Inadequate funding of cotton research activities.
- Poor remuneration of research scientists.
- Failure to transfer developed packages to farmers.
- Failure to facilitate mass production of technological packages developed.
- Loose link with the farmers.

#### Opportunities:

- Release of new varieties with improved quality characteristics every year.
- Collaboration with other research institutions worldwide to hasten research efforts.

#### Threats:

- Donor dependence for financing.
- Risk of losing newly released variety due to liberalized seed multiplication scheme.
- Brain drain.

## SWOT ANALYSIS OF THE COTTON SECTOR IN UGANDA

### PRIMARY PRODUCTION:

#### Strengths

- Poverty alleviation crop in rural areas.
- Grown in rotation and as source of cash income.
- Employing up to 2.5 million people.
- Hand picking and sorting helps to maintain quality.
- Organic production.
- Improved seed variety for yield.
- Increased value addition to lint quality.
- Government intervention thro CDO.
- Support by UGCEA to growers.
- Credit support thro ACE.
- High quality medium and long-term stapled cotton.

#### Weakness:

- Rudimentary mode of production.
- Very small-scale, non-commercialized production.
- Low level of input use and low productivity.
- Reliance mainly on family labor.
- Low adoption level due to poor extension services.
- Limited farmer exposure.
- Land fragmentation.
- Civil unrest in cotton growing areas.

#### Opportunities:

- Availability of land for increased production.
- Potential to produce up to 185,000MT of lint seasonally.
- Potential to improve productivity through intensive cultivation.
- Large scale production prospects.
- Establishment of a crop finance fund.
- Extensive research for better strains.
- Improved production environment.
- Improved extension services
- Genetically modified strains.

#### Threats:

- Over dependence on natural climatic and soil conditions.
- Competition for limited resources with other crops.
- Labor intensiveness.
- Lack of appropriate production/input credit.
- Disease/pest infestation.
- Poor soil fertility in some areas.
- High input cost.
- Price uncertainty.
- Production by other countries.
- Civil unrest within and beyond neighbouring borders.

## SWOT ANALYSIS OF THE COTTON SECTOR IN UGANDA

### PRIMARY MARKETING:

#### Strengths

- Payment of cash on delivery to growers.
- 'Lumpsum' income to farmers.
- Close links between farmers and ginners.

#### Weakness:

- Undercutting price payable to farmer.
- Price uncertainty.
- Trade in poor quality crop due to total liberalization and limited crop quantity.
- Lack of appropriate storage in some areas.
- Cut-throat competition leading to financial losses.

#### Opportunities:

- Increasing accessibility of trade finance through support from Common Fund or Commodities (CFC) project.
- Availability of mainly co-operative stores in some areas.
- Liberalized market environment.

#### Threats:

- Poor feeder road network.
- High fuel cost leading to high transportation cost.
- Little crop available seasonally.
- Risk due to civil unrest.
- High financial cost.
- Poor financial risk management.
- Lack of integrity in commercial deals.
- Un equal competition between local traders and international cotton merchants.

<b>GINNING:</b> <div> SWOT ANALYSIS OF THE COTTON SECTOR IN UGANDA </div>	
<b>Strengths</b> <ul style="list-style-type: none"> <li>• Relatively new machinery at many ginneries.</li> <li>• Existing capacity to gin 74,000MT of lint within the recommended 120 days.</li> <li>• Use of roller gin that preserves fiber staple.</li> <li>• Many private operators owning approximately 80 percent of the ginning capacity.</li> <li>• Well distributed ginning plants in all cotton growing areas.</li> <li>• Fiscal incentives</li> </ul>	<b>Weakness:</b> <ul style="list-style-type: none"> <li>• Weak capital base that render most ginneries very vulnerable.</li> <li>• Use of saw gin for Uganda/long staple cotton.</li> <li>• Supply demand gap leading to drop in quality.</li> <li>• Poor information flow.</li> <li>• Obsolete and outdated machinery poor and inadequate storage capacity.</li> <li>• Mixing varieties in ginning.</li> </ul>
<b>Opportunities:</b> <ul style="list-style-type: none"> <li>• More modern ginning machinery.</li> <li>• Establishing forward linkages to yarn and textiles.</li> <li>• Diversification into by products.</li> <li>• Maintain backward linkages with farmers.</li> </ul>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• High interest rate on corporate finance.</li> <li>• Lack of international trading skills.</li> <li>• Unreliable power supply in some parts of the country and high cost.</li> <li>• Inadequate cotton supply.</li> <li>• Dependence on pre-financing by international cotton merchants.</li> <li>• Poor communication infrastructure.</li> </ul>

SWOT ANALYSIS OF THE COTTON SECTOR IN UGANDA	
<b>EXPORTS:</b>	
<b>Strengths</b> <ul style="list-style-type: none"> <li>• High-grade cotton attracting premium price.</li> <li>• Superior Roller ginned cotton.</li> </ul>	<b>Weaknesses:</b> <ul style="list-style-type: none"> <li>• Lack of export and trading skills by local entrepreneurs.</li> <li>• Lack of up-to-date information on spot market prospects.</li> <li>• Selling cotton at ginnery gate price.</li> <li>• Extraneous matter in lint leading to arbitration threats.</li> <li>• Failure to honor contract obligations.</li> <li>• Dependence on international price setting.</li> <li>• Poor road/rail infrastructure.</li> <li>• Power shortages.</li> <li>• Poor communication.</li> </ul>
<b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Direct export to spinners.</li> <li>• Export to better markets as opposed to traditional European markets.</li> <li>• Exported as organic products.</li> </ul>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• Land locked country.</li> <li>• Absence of cheap transportation.</li> <li>• Excessive export by other countries leading to glut and price fall.</li> <li>• High cost of utilities.</li> <li>• Limited trade finance.</li> <li>• Insecurity in northern borders.</li> </ul>

<b>SWOT ANALYSIS OF THE COTTON SECTOR IN UGANDA</b> <b>YARN/TEXTILES:</b>	
<b>Strengths</b> <ul style="list-style-type: none"> <li>• Proximity of textile mills to local raw materials.</li> <li>• Readily available utilities such as hydroelectric power and water.</li> <li>• Abundant supply of cheap labor.</li> <li>• Relatively new machines.</li> <li>• Ability to produce wide range of fabrics, denims and apparel.</li> <li>• Niche markets for 'Kitenge' type products.</li> <li>• Opening of US markets under AGOA.</li> </ul>	<b>Weaknesses:</b> <ul style="list-style-type: none"> <li>• Operating at 30% capacity.</li> <li>• Machinery not modern enough to meet export demands of highly competitive markets.</li> <li>• Supply of raw material inadequate.</li> </ul>
<b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Two operating large textile mills (capacity 45 million meters annually).</li> <li>• Existence of a spinning plant expected to be operational mid-2001.</li> <li>• Contracting to produce for chain super stores in developed world.</li> <li>• Joint partnership.</li> <li>• Exploiting AGOA.</li> <li>• Regional market.</li> </ul>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• More efficient textile mills in neighbouring countries.</li> <li>• Imports of cheaply produced textile and used clothes.</li> <li>• Failure to exploit economies of scale.</li> <li>• High tariffs on corporate finance.</li> </ul>

## **ANNEX II**

### **MEMORANDUM TO THE SPECIAL TASK FORCE ON EXPORT COMPETITIVENESS**

**MEMORANDUM TO THE SPECIAL TASK FORCE ON  
EXPORT COMPETITIVENESS**

**STRENGTHENING THE EXPORT COMPETITIVENESS OF  
UGANDA'S COTTON SECTOR**

**The Challenge:**

- Cotton traditionally has been one of Uganda's important export commodities, currently accounting for 3.6% of the country's foreign exchange receipts, and contributing to the incomes of 10% of the country's population.
- However, during the period from 1974/75 to 1993/94, external and internal factors have combined to dramatically reduce cotton's contribution to economic growth, foreign exchange earnings, and rural incomes.
- With the good climate and soils that Uganda offers for growing cotton the commodity has the potential of being a much greater contributor to the economy.
- The challenge is to bring cotton back to its former position and Uganda needs to continue to address the crisis of the sector.

**The Problem:**

- Internally, due to internal political disruptions, cotton production entered a period of spiraling decline.
- The sector still faces serious problems, some of which include:
  - Low cotton productivity at the farm level.
  - Little research and training due to shortages of funds.
  - Lack of an adequate finance program.
  - Lack of an organized information system that provides stakeholders with the information they need to make correct marketing decisions.
  - Low utilization of gins making many very marginal operations.
- Low world market prices for cotton that are expected to continue to be depressed.
- With many farmers and ginners just starting to get back on their feet efforts must be kept in place to continue the reestablishment of the sector.

**The Opportunity:**

- Uganda has the capacity to restore the cotton sector through effective support for farmers and increased management capabilities at ginneries and value-adding levels of the industry.
- Uganda has optimal agricultural and climatic conditions.
- To maintain its market position, it is essential to build on the positive goodwill effort in place between ginners and farmers that has been a focus of the CDO and UGCEA.
- In addition to the strong supportive role of CDO, Ginners, and farmers, other government agencies need to remain committed to the cotton sector and its resurgence.

- Support and expansion of the value adding sectors of the cotton business (textiles, vegetable oils, soap, and specialty medical type products, etc.) need to receive more focus.

### **The Strategy:**

- The long-term competitiveness of the cotton sector is based on knowing what the customer wants. Fortunately the characteristics of cotton from Uganda with respect to staple length, micronaire, and color meet the customer need, and must be maintained or improved.
- Effective communication of what constitutes market value to each link in the cotton production system is a corner stone for the strategy.
- The most serious problem facing the cotton sector is the low level of farm productivity, and to upgrade this must be a major strategic thrust if competitiveness of the sector is to be enhanced.
- When the factors of production used by farmers are properly used factors of production used by ginners will be maximized.
- The strategy will require that the government representative CDO continue its important role in mobilizing and coordinating the support of stakeholders at all levels around a national cotton (raw or value added) export program, even though it will be executed by the private sector
- Also, assistance will be required at the transport, storage, and marketing levels.

### **Action Steps:**

- Uganda's competitive challenge in the cotton sector is to increase the productivity of cotton and the returns to farmers.
- Uganda's competitiveness in the textile and other value adding sub-sectors of the industry must be fully realized to keep as much of the value generated by the industry at home.
- Ensure that proper research support is provided to the cotton production sector.
- Ensure that adequate financing is available for farmers, ginners, and value adding firms
- Improve gin utilization so as to effectively support farmers.
- Ensure the maintenance of a strong quality control program for cotton.
- Develop and continuously communicate new information (technical, market, and other industry news) to farmers, ginners, and value adding firms.
- Develop means for integrating the value adding sector into the decision making processes of the industry
- Ensure strong coordinative support for the industry with government

### **The Participants:**

- Highest levels of government, preferably the President, should mobilize support for the strengthening of the cotton sectors competitive position.
- The Special Task Force on Export Competitiveness should incorporate the key public and private groups that can make change happen.
- CDO has held a responsible role for coordinating the interface between government and the industry, and continuity in this effort needs to be maintained.

- The Cotton Sector Working Group, comprising leading participants and components in the sector, should recommend wide-ranging actions and policy changes. The COMPETE project (funded by USAID) will provide technical assistance to the Working Group.
- Private sector organizations should take on active roles in communicating technical and market information to their members and constituents.
- Donors and non-governmental organizations should be invited to participate in key aspects of building cottons export role.

### **Short and Longer-Term Work Plan:**

- Initiation of the Export Competitiveness Strategy should be announced by the President and the Cabinet at the National Conference on Cotton.
- Year 1 Action Plan: Enhance Productivity & Production
  - Identify target farmers with whom to work, and their plots;
  - Identify district and site coordinators to implement and monitor the plots;
  - Establish the proper design layout for each plot;
  - Organize the supply of inputs for the demonstration plots;
  - Organize the proper preparation and planting package for each plot;
  - Develop the ongoing program for the remainder of the first year together with the Cotton Sector Working Group;
  - Train the site coordinators so that they can train farmers;
  - Invite farmers to see the plots and explain what was done;
  - Field the farmer questions and develop effective means for responding;
  - Prepare means for showing farmers results of demonstration plots;
  - Invite farmers to see results;
  - Develop means for showing farmers the impact on returns of results;
- Years 2-5 Action Plan: Maintain, Build, and Strengthen the Cotton Sector
  - Building a coalition of private and public groups to lead the programs of change. At the pinnacle of this group will be the CDO.
  - Continuous work to improve the productivity of cotton and returns to farmers.
  - Continue to work to ensure that proper research support is provided to the cotton production sector.
  - Promote the expansion of large-scale cotton production estates that also support out-growers.
  - Continually work to arrange adequate financing for farmers, ginners, and value adding firms.
  - Improve gin utilization.
  - Ensure the maintenance of a strong quality control program for cotton.
  - Develop and continuously communicate new information (technical, market, and other industry news) to farmers, ginners, and value adding firms.
  - Develop means for integrating the value-adding sector into the decision making processes of the industry.
  - Promote the expansion of the value adding sector and exports of value added products.
  - Ensure strong coordinative support for the industry with government.

***COMPETE Project***